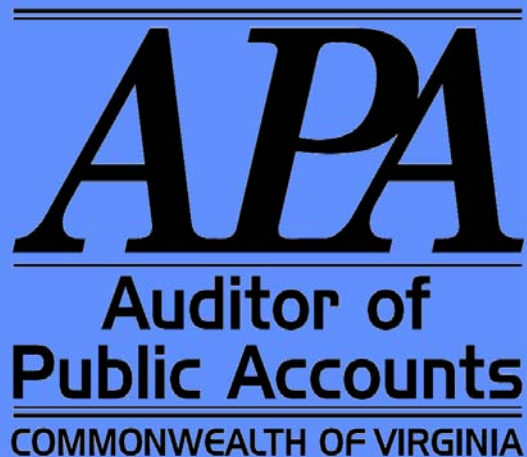


**STATE COUNCIL OF HIGHER EDUCATION
FOR VIRGINIA**

**REPORT ON AUDIT
FOR THE PERIOD
JULY 1, 2006 THROUGH JUNE 30, 2008**



AUDIT SUMMARY

Our audit of the State Council of Higher Education for Virginia for the period July 1, 2006, through June 30, 2008, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a matter involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDING AND RECOMMENDATION

Develop an Information Security Program

The State Council of Higher Education for Virginia (SCHEV) does not have an information security program that effectively addresses Information Technology risks and protects the sensitive data it maintains for its programs. An information security program should include several components; including risk management plans, security awareness training, and information security policies and procedures that SCHEV's employees must follow.

We recommend that SCHEV work with the Accounting and Internal Control Compliance Oversight unit at the Department of Accounts to develop a documented information systems security program. Once the program is complete, SCHEV should continue to work with the Accounting and Internal Control Compliance Oversight unit to implement the program and train its employees in the information security policies and procedures.

AGENCY HIGHLIGHTS

The State Council of Higher Education for Virginia (SCHEV) is the coordinating body for higher education, and its mission, as outlined in the Code of Virginia, is “to promote the development of an educationally and economically sound, vigorous, progressive, and coordinated system of higher education.” SCHEV makes higher education public policy recommendations to the Governor and General Assembly in such areas as capital and operating budget planning, enrollment projections, institutional technology needs, and student financial aid.

SCHEV also administers a variety of educational programs that benefit students, faculty, and parents. SCHEV’s primary financial objective is to administer a variety of Commonwealth student financial aid programs, and it also administers certain federal financial assistance programs.

FINANCIAL OPERATIONS

Overview

SCHEV’s expenses for fiscal 2008 totaled more than \$74 million, and represented an increase of nearly \$13 million from their fiscal 2007 levels. Most of the increase is \$10 million in additional funding to support the Tuition Assistance Grant program in the Higher Education Student Financial Assistance program during fiscal year 2008. The following table summarizes SCHEV’s appropriations as compared to actual expenses by program for the fiscal years.

Analysis of Budget to Actual Expenses, by Program

	<u>Fiscal Year 2008</u>			<u>Fiscal Year 2007</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>	<u>Actual Expenses</u>
Higher Education Student Financial Assistance	\$ 67,562,281	\$ 67,379,646	\$ 65,740,296	\$ 54,785,663
Financial Assistance for Educational and General Services	6,352,568	75,000	71,811	70,962
Higher Education Academic, Fiscal, and Facility Planning and Coordination	57,110,680	50,307,433	5,410,480	4,498,312
Higher Education Federal Programs Coordination	2,440,426	1,466,379	618,636	540,167
Financial Assistance for Public Education	<u>2,380,354</u>	<u>2,392,354</u>	<u>2,336,028</u>	<u>1,421,422</u>
Total	<u>\$ 135,846,309</u>	<u>\$121,620,812</u>	<u>\$ 74,177,251</u>	<u>\$ 61,316,526</u>

The significant decrease in the final budget for the Financial Assistance for Educational and General Services was an Appropriation Act change which directly transferred roughly \$6.3 million to the Commonwealth’s higher education institutions to attract and retain eminent scholars. The significant decrease in the final budget for the Higher Education Academic, Fiscal, and Facility Planning and Coordination program is another direct Appropriation Act transfer of roughly \$6 million to James Madison University to support the Virtual Library of Virginia. Although it appears that SCHEV substantially under spent their appropriation for this program; this program included the collection of roughly \$44 million in non-general funds to support nursing scholarships, which SCHEV never received. The 2009 Appropriation Act recognized that SCHEV was not going to receive these funds and reduced the program for fiscal 2009.

Financial Assistance Programs

SCHEV administers and transfers amounts to institutions of higher education for numerous financial aid programs. The programs receive both state and federal funds, and following is a brief description of each program that SCHEV administers:

1. The Tuition Assistance Grant program is the single largest program administered by SCHEV. The General Fund pays for the program, and we provide additional information about the program in the next section.
2. The College Scholarship Assistance Program is a need-based financial assistance program open to students attending both public and private higher education institutions in Virginia. Funding for this program combines state appropriations with federal funding from the Federal Leveraging Educational Assistance Partnership program. The Appropriation Act provides the level of funding available, and provides a maximum award amount for the program.
3. The Eminent Scholars program is designed to attract and retain experienced staff by providing awards to outstanding faculty from a General Fund appropriation.
4. Several annual awards include the Virginia Grant Consortium Scholarships, Virginia Women's Institute for Leadership program awards, the Virginia Military Survivors and Dependents program, and optometry scholarships. The amount of funding available for each of these financial assistance programs comes from the General Fund.
5. The No Child Left Behind Act, a federal education funding program, provides grants to promote the improvement of teacher quality.
6. The Gaining Early Access and Readiness for Undergraduate Programs (GEAR UP) federal grant program encourages children to stay in school and prepare for college, provides professional development opportunities for teachers, and provides programs for parents to illustrate the value of postsecondary education.

Tuition Assistance Grant Program

The Tuition Assistance Grant (TAG) program provides financial assistance to Virginia residents attending as either an undergraduate or graduate students a private, non-profit, accredited college or university within the Commonwealth. The General Fund provides the sole source of support for the TAG program.

TAG awards are standardized, and based upon the graduate or undergraduate status of the students. Total amounts available and maximum individual TAG awards are set forth in the Appropriation Act. The maximum award amounts for 2008 were \$3,200 for qualified undergraduate students and \$2,200 for qualified graduate students.

The following chart illustrates the amount of TAG funding for each qualifying college or university during fiscal 2007 and fiscal 2008.

College/University	2007 Recipients	2008 Recipients	2007 Total Award	2008 Total Award
Appalachian School of Law	98	83	\$183,350	\$157,700
Averett University	479	439	\$1,199,500	\$1,269,750
Bluefield College	551	514	\$1,285,750	\$1,436,843
Bridgewater College	1,152	1,205	\$3,011,695	\$3,640,337
Christendom College	69	63	\$182,750	\$193,600
Eastern Mennonite University	394	400	\$960,703	\$1,118,280
Eastern Virginia Medical School	274	331	\$517,750	\$605,150
Emory and Henry College	633	622	\$1,619,133	\$1,862,918
Ferrum College	828	1,001	\$2,117,900	\$2,977,600
George Washington University	10	26	\$13,300	\$40,600
Hampden-Sydney College	734	749	\$1,951,178	\$2,313,600
Hampton University	1,045	1,036	\$2,723,000	\$2,981,363
Hollins University	413	407	\$1,038,700	\$1,173,100
Institute for the Psychological Sciences	*	3	*	\$5,700
Jefferson College of Health Sciences	513	583	\$1,182,625	\$1,597,365
Liberty University	2,833	3,400	\$6,884,555	\$9,523,299
Lynchburg College	1,276	1,281	\$3,267,588	\$3,780,526
Mary Baldwin College	646	719	\$1,523,630	\$1,977,479
Marymount University	930	942	\$2,166,891	\$2,532,050
Randolph College	216	235	\$555,031	\$648,800
Randolph-Macon College	759	776	\$1,984,915	\$2,426,715
Regent University	503	553	\$915,880	\$1,117,057
Roanoke College	1,000	1,012	\$2,621,922	\$3,076,983
Saint Paul's College	419	473	\$1,075,900	\$1,332,800
Shenandoah University	974	1,054	\$2,281,176	\$2,871,723
Southern Virginia University	140	136	\$343,280	\$387,040
Sweet Briar College	282	342	\$737,262	\$1,022,110
University of Richmond	969	915	\$2,203,608	\$2,361,341
Virginia Intermont College	350	280	\$868,887	\$828,400
Virginia Union University	491	466	\$1,268,150	\$1,404,800
Virginia Wesleyan College	796	822	\$2,026,962	\$2,442,325
Washington and Lee University	294	318	\$766,800	\$935,450
Statewide Totals	20,071	21,186	\$49,479,771	\$60,042,804

*The Institute for Psychological Sciences began receiving TAG funding during fiscal 2008.
Totals were taken from the Commonwealth Accounting and Reporting System, as of 6/30/2007 and 6/30/2008.

During fiscal 2008, SCHEV transferred over \$60 million to various institutions representing approximately 81 percent of its total expenses during the year. Also, the General Assembly appropriated additional funding of nearly \$10 million to support the TAG program.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

March 18, 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **State Council of Higher Education for Virginia (SCHEV)** for the years ended June 30, 2007 and June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of SCHEV's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

SCHEV's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Federal grant revenues and expenditures
- Payroll expenditures
- Financial assistance program
- Appropriations
- Information Security

We performed audit tests to determine whether SCHEV's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of SCHEV's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the SCHEV properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. SCHEV records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted one matter involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on April 2, 2009. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

HCV/alh



COMMONWEALTH of VIRGINIA


Daniel J. LaVista
Executive Director

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MEMORANDUM

TO: Duane Miller, Auditor In-Charge
John Hickman, Information Systems Security Auditor
Goran Gustavsson, Director, Information Systems Security
Helen Vanderland, Project Manager

FROM:  Daniel J. LaVista

DATE: April 6, 2009

SUBJECT: Response to Possible Management Letter Comment

Thank you for the recent exit interview and opportunity to respond to the audit findings. We at SCHEV take information system (IS) security very seriously. We manage a data collection and reporting system containing millions of student records protected under both state and federal law. We well understand what is at risk with any possible unintended exposure of these records.

In your report you state:

State Council of Higher Education for Virginia (SCHEV) does not have an information security program that effectively addresses Information Technology risks and protects the sensitive data it maintains for its programs.

We acknowledge that we do not have written policies and procedures for each section of the SEC 501-01, the Commonwealth's Information Technology Security Standard. The standard was first published in July 2007 and represents a need for substantial commitment of time and resources – which have not been readily available to a small agency such as SCHEV. Those policies that are currently missing will be developed and implemented within the next eight months. However, we do take minor exception to the statement in that we have yet to have a successful incursion into our student record system or an unintended exposure of any of our student data.

The audit findings make the following recommendation:

We recommend that the Council work with the Accounting and Internal Control Compliance Oversight unit at the Department of Accounts to develop an Information Systems Security Program.

We fully agree and look forward to working with DOA. However, we note with both some pride and some chagrin, that SCHEV is not currently scheduled for assistance through FY2009. That is because, according to Mr. Edward Miller of DOA in response to your email about SCHEV's position on their work plan: "We haven't scheduled out past the end of FY09 yet, but I would guess that it might be 2nd or 3rd quarter of *FY10 based on our current risk rankings* (emphasis added) before Matt or I have time to assist that agency." In other words, DOA's Information Systems Security team does not view SCHEV as a high-risk agency with need for immediate assistance. While we take pride in that, we assure you that we wish to take full advantage of DOA's assistance. Based on your recommendation, we will ask to be moved up on the calendar, but we are committed to having a program developed by November 30, 2009.

c: Ellie Boyd, Budget and Finance Director
Thomas Daley, Deputy Director
Tod Massa, Director of Policy Research and Data Warehousing

AGENCY OFFICIALS

STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA Richmond, Virginia

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